The Economy and Manufacturing in the U.S. and Oklahoma

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Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
  - Maximum sustainable economic growth
  - Low and stable inflation
  - National financial stability

- **Mission areas:**
  - **Monetary policy** – most visible role to the public, usually
  - **Bank regulation** – including lender of last resort
  - **Payments systems** – cash, checks, electronic payments

- **Monetary policy is set by the 12-member FOMC:**
  - The Federal Open Market Committee meets every 6 weeks
  - Voting members consist of:
    - the 7 Governors in Washington;
    - the New York Fed President;
    - 4 of the 11 other Fed presidents on a rotating basis
Federal Reserve Districts and Office Locations
The Kansas City and Oklahoma City Offices

• Headquarters in Kansas City
  • Nearly 1,000 staff involved in all mission areas
  • New building officially opened in June 2008

• Oklahoma City branch office
  • Staff and functions – 35 staff involved in economic research, bank examinations, and public and community affairs
  • Branch board of directors – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

• Oklahoma City branch board of directors
  • Chairman Steve Agee, President, Agee Energy, and Professor, OCU, Oklahoma City
  • Terry Almon, President, Oklahoma Community Capital Corp., Broken Arrow
  • Bill Anoatubby, Governor, Chickasaw Nation, Ada
  • Jim Dunn, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  • Fred Ramos, COO, Latino Community Development Agency, Oklahoma City
  • Doug Tippens, President and CEO, Canadian State Bank, Yukon
  • K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
The U.S. and Oklahoma Economies

- The U.S. economy is weakening, but credit markets and inflation are improving.
- Oklahoma is stronger but also weakening.
- Forecasts call for weakness throughout 2009, but many efforts are in place to boost growth.
In the fourth quarter of last year, only government added to U.S. growth

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
And weak U.S. business activity has continued on into 2009

National Business Indexes and Payroll Employment

Short-term credit conditions have improved after worsening in September

Source: U.S. Bureau of Labor Statistics
Still, bank lending standards on business loans continue to tighten.

Source: FRB Senior Loan Officer Survey
Policy-makers are increasingly pessimistic about the near-term economic outlook

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis
And U.S. unemployment is expected to rise further
Meanwhile, inflation is expected to moderate after rising in 2008.

Source: U.S. Bureau of Economic Analysis
Unemployment remains relatively low in Oklahoma.

Unemployment Rate, December 2008

Source: Bureau of Labor Statistics
And so far, foreclosures have remained in check in Oklahoma

Total Foreclosures, U.S. vs. Oklahoma

Index: Jan 06=100

Source: Realty-Trac
But unemployment claims are now rising rapidly, changing the picture for the state.
The rig count has fallen sharply in recent months and is expected to fall further.

Count of Active Drilling Rigs

Source: Baker-Hughes
Manufacturing in Oklahoma

- The sector is currently struggling
- It remains a sizable part of the economy
- Future opportunities exist
Manufacturing activity in the state has fallen sharply in recent months.

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Most factories now plan to cut 2009 capital spending, in contrast to a few months ago.

Source: FRBKC Manufacturing Survey
Manufacturing’s share of Oklahoma’s economy has remained sizable.
The U.S. trade imbalance must ultimately be reversed, providing a future opportunity.
Summary

- U.S. economic conditions have deteriorated
- Oklahoma conditions remain better, but some recent high-frequency data have been worse
- Efforts to boost U.S. growth should benefit OK
- Manufacturing should remain a vital part of the state’s economy heading forward